

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Program

EXECUTIVE SUMMARY

Applicant:	La Maestra Family Clinic, Inc. (La Maestra) 4185 Fairmount Avenue San Diego, California San Diego County	Amount Requested:	\$400,000
		Requested Loan Term:	15 years
		Date Requested:	January 30, 2003
		Resolution Number:	HII-139
Project Site:	4185 Fairmount Avenue, San Diego, California 165 South First Street, El Cajon, California		
Facility Type:	Community Clinic		
Use of Loan Proceeds: Loan proceeds will be used to refinance an existing loan on property owned in the City of San Diego and remodel a newly leased facility located in the City of El Cajon.			
Type of Issue:	HELP II Loan		
Prior HELP II Borrower:	No		
Payments Status:	N/A		
Financial Overview: La Maestra Family Clinic, Inc. is a financially stable organization, as shown by the positive growth in revenue and continues to operate with positive results. The balance sheet shows strong liquidity, low debt and a significant growth in net assets.			
Sources of Revenue: (FYE 6-30-02, unaudited)		<u>Amount</u>	<u>Percent</u>
	Patient services	\$2,229,885	44%
	Grants and contracts	1,669,534	33%
	Job training	951,103	19%
	Other revenues	<u>178,887</u>	<u>4%</u>
	Total Revenue and Support	<u>\$5,029,409</u>	<u>100%</u>
<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
HELP II loan	\$400,000	Construction	\$183,600
Equity contribution	21,000	Refinancing	137,000
		Purchase equipment	57,400
		Other development fees	36,000
		Financing cost	<u>7,000</u>
Total Sources	<u>\$421,000</u>	Total Uses	<u>\$421,000</u>
Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.			
Staff Recommendation: Staff recommends the Authority approve a resolution for a HELP II Loan to La Maestra Family Clinic in an amount not to exceed \$400,000 for a term of 15 years, subject to submission of 2002 audited financial statements consistent with the unaudited 2002 financial statements presented in this summary, satisfactory completion of the entitlements required in the ground lease and the standard HELP II loan provisions.			

STAFF SUMMARY AND RECOMMENDATION

LA MAESTRA FAMILY CLINIC, INC. (“LA MAESTRA”)

January 30, 2003

Resolution Number: HII-139

I. PURPOSE OF FINANCING: La Maestra intends to refinance the existing debt secured by one of the clinic’s properties located in the City of San Diego. In addition, La Maestra proposes to expand the existing community clinic services at a newly leased property located in the City of El Cajon. The loan for this project will save approximately \$10,000 per year in interest payments in comparison to a commercial rate loan.

***Refinance existing debt*..... \$137,000**

The existing loan is through California Economic Development and Lending Initiative (CEDLI) with a loan balance of \$137,080, at an interest rate of 10.625% with a final payment due on March 15, 2007. The current monthly payment is approximately \$1,990, and the loan is secured by the clinic property located in San Diego. La Maestra can save approximately \$23,700 in interest during the term of the loan.

The proposed HELP II loan of \$400,000 will be secured by the clinic property. La Maestra’s management estimates the property’s value at \$430,000, which provides sufficient security for the proposed HELP II loan. La Maestra is currently in the process of having the property appraised.

***Remodeling of leased facility*..... 183,600**

La Maestra recently leased two buildings located in El Cajon, California for a term of five years with the option to renew the lease for another five years. The lease allows La Maestra to remodel a 2,634 square foot structure on one site and a 1,630 square foot structure on another site. The remodeled buildings will house four handicap restrooms, two intake rooms, eight exam rooms, two nurse stations, two storage rooms, a vaccination room, a laboratory, and entry-waiting area for adults and pediatrics.

An application has been submitted to the Bureau of Primary Health Care to have this facility designated as a Federally Qualified Health Center (FQHC). This project will provide medical, dental and mental health services to low income medically underserved patients, thereby accessing the same funding streams and payor sources as La Maestra is currently receiving for the current facility in San Diego.

***Purchase Equipment*..... 57,400**

Equipment purchases include exam tables, ECG machine, autoclave, microscope, telephone and computer systems.

Other Development Fees..... **36,000**

The development fees include architectural fees, permit fees, pre-construction costs, feasibility studies, site tests and surveys.

Financing Costs **7,000**

1. Authority Closing Fee..... \$5,000

2. Title/Escrow/Other..... 2,000

Total..... **\$421,000**

Financing Structure:

The HELP II loan for La Maestra Family Clinic, Inc. will be structured as follows:

- 15-year loan term.
- 180 equal monthly payments of approximately \$2,760 (yearly payments of \$33,150).
- Total interest payments of approximately \$97,200.
- Maximum loan to value ratio of 95%. Expected 93% loan to value ratio (based on “As Is “ value of \$430,000).
- First deed of trust on the property located at 4185 Fairmount Avenue, San Diego, CA.
- Corporate gross revenue pledge.
- UCC-1 filing on equipment to be purchased.

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II. FINANCIAL STATEMENTS AND ANALYSIS:

La Maestra Family Clinic, Inc.
Statement of Activities
(Unrestricted)

	For three months ended September 30	For the year ended June 30		
	2002	2002	2001	2000
	(Unaudited)	(Unaudited)		
<u>REVENUE</u>				
Patient services	\$ 780,625	\$ 2,229,885	\$ 1,828,411	\$ 1,268,672
Grants and contracts	333,089	1,669,534	844,078	421,439
Job training	3,060	951,103	1,029,227	856,598
Other revenues	32,891	178,887	80,676	43,015
Total revenues	<u>1,149,665</u>	<u>5,029,409</u>	<u>3,782,392</u>	<u>2,589,724</u>
<u>EXPENSES</u>				
Salaries and related expense	725,005	3,099,191	1,944,915	1,284,853
Contractual services	67,004	234,922	300,812	185,709
Program services and supplies	49,211	232,462	281,499	117,270
Conference, training and travel	14,739	51,995	52,635	26,096
Employee placement incentives-subsidies	17,970	320,341	296,872	468,529
Occupancy, maintenance and insurance	88,069	236,523	261,064	198,791
General and administration	23,995	128,316	32,513	41,683
Professional services	22,660	158,769	158,790	48,114
Interest	15,961	51,168	38,397	36,391
Depreciation	18,956	75,826	56,593	41,382
Total expenses	<u>1,043,570</u>	<u>4,589,513</u>	<u>3,424,090</u>	<u>2,448,818</u>
Change in unrestricted net assets	106,095	439,896	358,302	140,906
Unrestricted net assets at beginning of year	1,178,409	738,513	380,211	239,305
Unrestricted net assets end of year	<u>\$ 1,284,504</u>	<u>\$ 1,178,409</u>	<u>\$ 738,513</u>	<u>\$ 380,211</u>

Statement of Financial Position

	<u>As of September 30</u>	<u>As of June 30</u>		
	<u>2002</u> (Unaudited)	<u>2002</u> (Unaudited)	<u>2001</u>	<u>2000</u>
<u>Assets</u>				
Current Assets:				
Cash	\$ 80,600	\$ 208,962	\$ 217,257	\$ 148,549
Accounts receivable	1,496,168	1,094,549	1,025,544	908,939
Other current assets	194,560	191,132	19,262	1,677
Total Current Assets	<u>1,771,328</u>	<u>1,494,643</u>	<u>1,262,063</u>	<u>1,059,165</u>
Noncurrent Assets:				
Property and equipment, net	926,226	908,642	459,376	406,659
Other noncurrent assets	64,483	64,484	55,919	6,474
Total Assets	<u>\$ 2,762,037</u>	<u>\$ 2,467,769</u>	<u>\$ 1,777,358</u>	<u>\$ 1,472,298</u>
<u>Liabilities & Net Assets</u>				
Current Liabilities:				
Accounts payable-accrued expenses	\$ 608,267	\$ 624,791	\$ 702,089	\$ 692,927
Current portion -long term debt	45,378	60,504	23,844	23,844
Total Current Liabilities	<u>653,645</u>	<u>685,295</u>	<u>725,933</u>	<u>716,771</u>
Long Term Debt	823,888	604,065	312,912	375,316
Total Liabilities	<u>1,477,533</u>	<u>1,289,360</u>	<u>1,038,845</u>	<u>1,092,087</u>
Unrestricted net assets	1,284,504	1,178,409	738,513	380,211
Total Liabilities & Net Assets	<u>\$ 2,762,037</u>	<u>\$ 2,467,769</u>	<u>\$ 1,777,358</u>	<u>\$ 1,472,298</u>

Financial Ratios:	Proforma (a) 6/30/02				
Debt Service Coverage (x)	<u>3.16</u>	1.84	3.87	4.28	3.21
Debt/Unrestricted Net Assets (x)	0.79	0.68	0.33	0.55	1.16
Margin (%)		9.23	8.75	9.47	5.44
Current Ratio (x)		2.71	2.18	1.74	1.48

(a) Recalculates June 2002 unaudited results to include the impact of this proposed financing.

Financial Discussion:

La Maestra is a financially stable organization, as shown by the positive growth in revenue and continues to operate with positive results.

La Maestra provides a comprehensive range of health care services to the low income, medically underserved population in the San Diego County. Its main sources of revenue are patient services, grants and contracts, and job training. The revenues for patient services are derived from government programs such as Medi-Cal and Child Health and Disability. The grants and contracts revenue are funded by both private and government sources such as Health and Housing Grants, Tides Foundation Grants, Susan Komen Foundation (Breast Cancer) Grants and Tobacco Settlement Grants. The job training revenue is funded by the Office of Refugee Resettlement Programs. Other revenue consists of contributions from the community.

Total revenues have increased approximately 94% over our review period from fiscal 2000 to 2002, primarily due to the substantial increase in patient services and grants and contracts. The main contributing factor for patient services revenue increase was the establishment of a new dental unit and the overall increase in patient utilization. Apart from the increases in the current grants, some new grants were also received in fiscal 2001 and 2002. Management expects that revenues for fiscal 2003 will be relatively consistent with those of fiscal 2002.

Operating expenses increased approximately 88% over our review period. The increases were significant for fiscal 2001 and fiscal 2002 as salaries and related expenses increased by 51% and 45%, respectively. Apart from interest and depreciation expenses, the total operating expenses increased primarily due to the costs associated with the new dental unit, increases in grants and contracts, repairs to newly acquired buildings, increases in insurance, software support leasing costs and patient utilization. Both interest and depreciation expense increases are due to the purchase of buildings, equipment and the related long-term financing in fiscal 2002.

Despite the overall increase in expenses, La Maestra continues to post positive operating results through the current fiscal period. Positive revenue growth has provided strong operating margins ranging from 5% to 9% during the past three fiscal years. Management anticipates maintaining an operating margin of approximately 8% for fiscal 2003. La Maestra has had positive growth in unrestricted net assets and anticipates a \$400,000 increase in unrestricted net assets for fiscal 2003.

The balance sheet shows good liquidity, low debt and significant growth in net assets.

La Maestra has maintained positive cash flows with adequate liquidity as demonstrated by a strong current ratio ranging from 1.48x to 2.18x for the review period. With continued positive operating results, net assets have grown 210% from fiscal 2000 to fiscal 2002. La Maestra has low debt and a growing net asset balance, providing a proforma debt-to-unrestricted net assets ratio of 0.79x. With this proposed loan, management anticipates meeting all of its debt obligations, as evidenced by a proforma debt service coverage ratio of 3.16x.

III. UTILIZATION STATISTICS:

Number of Patients and Encounters

Type of Service	2002		2001		2000	
	Patients	Encounters	Patients	Encounters	Patients	Encounters
Medicare	216	422	58	147	168	306
Medi-Cal	7,834	15,942	4,877	12,383	8,697	14,006
CHDP	843	1,719	1,873	4,756	2,570	4,780
EAPC	611	1,157	486	1,234	976	1,756
Other program	4,788	8,727	1,744	4,428	3,424	5,483
Self-pay	2,222	3,640	1,473	3,740	2,783	3,913
Private	220	433	70	179	50	66
Total	16,734	32,040	10,581	26,867	18,668	30,310

Starting in fiscal 2001, all non-provider visits such as health education, immunizations and lab work are not represented in this number, as they are not reimbursable under the cost-reimbursement FQHC format. Accordingly, there is a drop in total numbers from fiscal 2001.

Other program represents services provided for Family Planning Program and Breast Cancer Early Detection Program. Private represents services provided for commercial insurance plan Community Health Group, a preferred provider organization.

IV. ORGANIZATION:

Background:

La Maestra was incorporated in 1991 as a non-profit public benefit corporation to provide community health care services in Central San Diego County to minorities, refugees, children and others for whom such services are generally limited or unavailable. Over the past twelve years, in addition to offering comprehensive primary health care services, La Maestra's programs meet the needs of the special population, with a staff that represents the diverse immigrant, refugee, urban and rural populations.

Licenses:

La Maestra is licensed as a Community Clinic with the State Department of Health Services.

Competition:

La Maestra maintains approximately 60% of the market share by providing services to residents from the San Diego facility. The population and the potential patient statistics for El Cajon are approximately 94,900 and 16,300 respectively. The main competition in El Cajon is Neighborhood Health Center, a community clinic, which is about five miles away. Most of the private physicians in the El Cajon area either do not accept Medi-Cal or require cash payments from the uninsured and under insured patients. With the proposed project at El Cajon, La Maestra expects fiscal 2004 a market share of approximately 30%, with 4,900 patients and 14,200 patient encounters.

Health Facilities in San Diego	Patients	Market Share (%)	Distance Away
La Maestra Family Clinics	16,734	60%	N/A
Mid City Health Center	5,578	20%	1 Mile
Private Physician Practice	2,789	10%	3 Miles
Other Outpatients Facility	2,789	10%	3 Miles

V. OUTSTANDING DEBT:

Description	Original Amount	Amount Outstanding As of 6/30/02 (a)	Estimated Amount Outstanding After Proposed Financing
Existing:			
Line of Credit – Leases (b)	N/A	\$222,103	\$222,103
Union Bank Mortgage January 2002 1 st Lien 4135/4137 Fairmount Ave.	\$205,000	202,130	202,130
Union Bank Mortgage July 1999 1 st Lien 4177/4179 Fairmount Ave.	104,696	92,621	92,621
CEDLI Mortgage February 1997 1 st Lien 4185/4189 Fairmount Ave.	212,500	142,715	-0-
Derounian Trust February 1997 2 nd Lien 4185/4189 Fairmount	25,750	5,000	5,000
Proposed:			
CHFFA HELP II Loan, 2003	400,000		400,000
TOTAL DEBT		\$664,569	\$921,854

(a) Includes current portion.

(b) Consists of many line of credits, notes and equipment leases from June 2000 to June 2002.

VI. SECTION 15438.5 OF THE ACT:

With the proposed HELP II Loan, La Maestra will save approximately \$10,000 per year in interest expense compared to a conventional rate loan. La Maestra will use these savings to offset its costs of uncompensated care for participants unable to pay out of pocket. The savings will also allow La Maestra to maintain or expand its existing level of services without raising rates.

VII. LEGAL REVIEW:

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. No information was disclosed to question the financial viability or legal integrity of this applicant.

VIII. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution for a HELP II Loan to La Maestra Family Clinic, Inc in an amount not to exceed \$400,000 for a term of 15 years, subject to submission of 2002 audited financial statements consistent with the unaudited 2002 financial statements presented in this summary, satisfactory completion of the entitlements required in the ground lease and the standard HELP II loan provisions.

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